COMPETITIVENESS UNITS OF LOCAL GOVERNMENT

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Abstract

The paper attempts to analyze competitiveness for Local Government Unit (LGU) based on unit labour costs, as well as labour productivity. The main purpose of this paper is to identify those local government units, which are the most competitive, based on unit labour cost that can be considered as indicator for future investments. This paper analyzes local government units during the timeframe 2010–2012 in Federation of Bosnia and Herzegovina. Main hypothesis is that labour costs should not increase faster than labour productivity on a permanent basis.

This paper introduces basic information on local government unit, reviews research methodology, discusses results and finally gives conclusion. The contribution of the paper is LGU productivity and competitive indicator as barrier for future investments.

Keywords: Competitiveness, Methodology, LGU, Bosnia and Herzegovina.

Introduction

This paper introduces basic information on Local Government Unit (LGU), reviews research methodology, and discusses results and the main conclusions of the research. The contribution of the paper is local government unit productivity and competitive indicator as barrier for future investments (Swainiewicz 2010; Porter 1990; Thompson 2003; Thompson 2004).

Basic information

Municipal governments constitute the lowest level of government in Federation of Bosnia and Herzegovina. Municipalities of Federation of Bosnia and Herzegovina

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have considerable autonomy to pursue their own policies and assume significant responsibilities in education, local infrastructure, public safety, welfare, etc. In 1955, after the World War II, a new territorial organization has been established. Bosnia and Herzegovina has 364 communities. The smaller municipalities were integrated into larger municipal territorial units and established 106 (109) municipalities before 1992 (Osmanković 2003).

Number of municipalities varied from about four hundred eighteen municipalities in 1952, up to one hundred and nine municipalities in 1991, or one hundred fifty-four municipalities in 1998 (Osmanković 2002). The Constitution of the Federation, within the definition of municipal government, introduced a provision which specifies that the municipality achieves local governments and municipalities statutes (Pejanović and Sadiković 2010; Osmanković 2002).

Adopting of the constitution new municipalities in the Federation of Bosnia and Herzegovina, ten new municipalities in the Federation of Bosnia and Herzegovina were formed. Municipal authorities were introduced through Amendment XVI to the Constitution of the Federation. This Amendment allows for the two or more municipalities that have been linked territorially to everyday needs of citizens to establish a city as a unit of local government (Pavić 2001; Pejanović and Sadiković 2010; Savanović 2009; Zlokapa 2007; Zlokapa et al. 2008).

**Methodology**

Competitiveness can be defined and measured in many ways. The main task of LGU’s is to concentrate on elements of competitiveness that could become strategic plan targets. (Porter 1990; Thompson 2003; Thompson 2004; Smith 1988-2005; Nicolas and Firzli 2012). Consultants on this paper focused on two basic elements of competitiveness: labour productivity and cost competitiveness (Jusić 2011; Pavić 2001; Savanović 2009; Swainiewicz 2010; Zlokapa et al. 2008).

Labour productivity and cost competitiveness represent the first measure of the level of competitiveness at the regional level. It takes into account economic aspects, including the factors which describe the short and long-term potential of the economy. A statistical analysis has been used to support and, in some cases, to correct the ideal framework of those two indicators. Results provide a synthetic picture of the level of competitiveness of local government units at the entity level, representing at the same time a well balanced plurality of different fundamental aspects. Unit labour costs are one of the indicators of cost competitiveness.
Author’s calculation
Note: The boundaries and the names shown and the designations used on these maps do not imply official endorsement or acceptance by the United Nations
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Figure 2: Cost competitiveness

Author’s calculation

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They show the relationship between the labour costs on one hand and the value produced by person employed, i.e. productivity, on the other. At the same time, they are an indicator of the distribution of income between labour and capital and hence an indicator of profitability. Cost competitiveness is commonly analysed on the basis of real unit labour costs and real effective exchange rates deflated by relative unit labour costs.
Gross domestic product (GDP) is a measure for the economic activity. GDP per person employed is intended to give an overall impression of the productivity of national economies expressed in relation to the European Union (EU27) average (EUROSTAT). If the index of a LGU is higher than 100, this LGU level of GDP per person employed is higher than the FBIH average and vice versa.

Discussion results

Using official data of the Federal Office of Statistics for 2010, 2011 and 2012, it is clear that the productivity in the majority of local governments increased in the observed period. It was noted also that in Posavina Canton all local governments exhibited a decrease in productivity over the analyzed period. The lowest recorded productivity compared to the average of the Federation of Bosnia and Herzegovina was recorded in Usora, while the highest productivity was in Ravno, then Vareš and Foča. In the coming years, units of local government changed their place with regards to lowest productivity as they were analyzed. Žepče took over as the most unproductive local government in 2011 and 2012. Vareš and Foča still retain the role of leader when it comes to productivity. More than 2/3 of local government, 53 of them in 2010 had a higher productivity than FBIH, while the number of them in 2011 or in 2012 fell to 51. (Jusić 2011; Savanović 2009)

Analysis of competitiveness in terms of labour costs indicates that the number of local governments that have had labour costs higher than the average of Federation grew from 42 in 2010, to 44 in the 2011, and that same number in 2012 climbed up to 47. Labour was most costly in Usora in 2010, Doboj-Jug had the highest labour costs in 2011 and Trnovo in 2012.

Figure 3: Trend Bihać labour costs and productivity
The upward trend in the average wage does not follow the increase in productivity as can be seen from example of Bihać. Similar situation is with the other LGU in the Federation of Bosnia and Herzegovina.

Conclusion

Since Usora has the lowest recorded productivity compared to the average of the Federation of Bosnia and Herzegovina, this causes reduction in investments, while in the highest productivity LGUs Ravno, Vareš and Foča, investments could increase. It can be concluded that Žepče can also expect reduced investment, after it took over as the most unproductive local government in 2011 and 2012. Vareš and Foča could be the most interesting for investors since they took the role of leader when it comes to productivity. General conclusion is that whole Federation could expect reduced investment, since trend in the average wage does not follow the increase in productivity.

References


**Link**

http://www.fzs.ba/
http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/
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